

OFFICE OF EQUITY PROGRAMS

Maryland Venture Fund
(MVF)

ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2013

Submitted by:

Maryland Department of Business and Economic Development

As of June 30, 2013

MARYLAND VENTURE FUND (MVF)

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MARYLAND VENTURE FUND

History and Program Description

The Enterprise Investment Fund (“EIF”), commonly referred to as the Maryland Venture Fund (“MVF” or the “Fund”), activities began in 1994 through the establishment of the Enterprise Fund, authorized by the Maryland General Assembly during the 1994 Session. The Fund was developed to make equity investments in “new” State enterprises. This initiative was enhanced to target investments in early stage, high technology companies experiencing difficulties attracting private sector investment dollars. Today, MVF activities are provided through five types of Program activity described as: the Enterprise Investment Fund, the Challenge Investment Program, the Enterprise VCLP Fund, the Maryland/Israel Development Fund and the FIPS Certification Grant Program.

Enterprise Investment Fund

The EIF is a State sponsored venture capital fund, wherein the State/DBED makes equity and convertible debt investments in early stage, high technology firms that are seeking outside venture capital for their “first” influx of meaningful investment dollars. In addition to recycling funds harvested from EIF’s legacy investments, EIF is capitalized from two sources of public funding: (i) the InvestMaryland Program in which approximately \$21,000,000 was generated via the InvestMaryland online tax credit auction, and (ii) the State Small Business Credit Initiative (“SSBCI”), a federal stimulus program from which MVF received approximately \$16,000,000. EIF’s initial investment in a company ranges from \$100,000 to \$1,000,000, with encumbered reserves for follow-on investments to support the portfolio companies, and EIF seeks to attract third party co-investment as well as subsequent investment in follow-on funding rounds in order to leverage EIF’s investment. The maximum fully diluted equity ownership percentage in any one company cannot exceed 25%.

DBED’s investments are termed for a maximum of 15 years and require the company to retain its principal place of business within the State of Maryland for a period of not less than five years. If the firm moves outside the State, repayment of DBED’s investment may be required, at cost or “fair market value”, whichever is higher.

Challenge Investment Program

The Challenge Investment Program (“CIP”) is a “seed” grant and investment program designed to invest in high technology “start-up” firms. The Challenge Investment Program requires that a program recipient retain its principal place of business in Maryland for a period of not less than three years.

MVF used the Challenge Investment Program to fund the grants awarded in the InvestMaryland Challenge, a statewide business competition for early stage Maryland technology companies.

Generally, Challenge investments are ten-year agreements having two potential sources of repayment: one based on 2% of product sales in excess of \$500,000/year, and another based on 1% of the equity dollars raised in excess of \$500,000. Challenge agreements are reviewed annually and modified as appropriate to ensure compliance and promote a recipient’s graduation into the Enterprise Investment Fund. Investment amounts generally range from \$50,000 to \$150,000, with the first \$50,000 or \$100,000 provided based on the strength of the business plan itself, and with any subsequent investment based on predetermined milestones.

Enterprise VCLP Fund

EIF historically invested \$11.5 million in ten Venture Capital Limited Partnerships (VCLP’s) since fiscal year 1994. Additionally, there is \$955,000 committed and available for capital calls by two of the legacy VCLPs. The InvestMaryland Program’s online tax credit auction raised \$56,000,000 for investment in VCLP’s selected by the

Maryland Venture Fund Authority. As of the end of FY2013 a total of \$31,000,000 in commitments had been made to five VCLPs, which in turn had invested \$5,999,997 in Maryland companies. The motivation to invest in these VCLP's is to stimulate venture capital fund activity and investments in Maryland. The Department recognizes the lack of venture capital participation in deals under \$10,000,000 and works closely with the venture capital community to connect Maryland based early-stage and technology companies with funding sources.

Maryland/Israel Development Fund (MIDF)

Maryland and Israel entered an MOU to establish a Maryland/Israel international research and development fund in November 2004. Israel has similar international R&D funds at the national level with 20 countries including the United States, Canada, Britain, Finland, South Korea and Singapore.

Investments may range from \$100,000 to \$300,000, half from DBED for the Maryland company and half from Israel's Ministry of Industry, Trade and Labor ("MOIT") for the Israeli firm. The funds can only be used for the R&D expenses of the project. Company matching funds are required, equal to a minimum of fifty percent of total project costs. For products successful in the market, investments will be repaid with interest.

The mission of the MIDF is to encourage collaboration between Maryland and Israeli companies creating high technology products. Funding for this program will be provided in equal amounts by each government. Repayment will be made after the joint Maryland-Israel effort yields product revenues. To date, no investments have been made under this program.

Maryland Federal Information Processing Standards (FIPS) Certification Grant Program

In FY 2005, DBED initiated a program that would provide small grants to technology companies needing proper security certification to do business with the Federal Government. The Maryland Federal Information Processing Standards ("FIPS") certification grant program will assist Maryland companies working to obtain FIPS 140-1 and FIPS 140-2 certification for encryption. DBED will also consider, on a case-by-case basis, assisting companies seeking certification for other FIPS standards (e.g., FIPS 197: Advanced Encryption Standard (AES) of November 2001).

Maryland-based companies with no more than 30 full-time employees and annual revenues that do not exceed \$5 million are eligible to apply for a FIPS certification grant. Once approved, the company may receive up to forty percent, not to exceed \$50,000, of the eligible costs involved in FIPS certification, such as consulting, engineering, and testing and evaluation fees, as well as other costs directly related to the certification process. Funding will be provided to the company once it has submitted expense reports relating to FIPS certification.

Grants through the FIPS certification grant program were initiated in FY 2006. One company has received FIPS funding based on expenses incurred in the certification process.

Performance of the Fund since Inception

Enterprise Investment Fund

The EIF has made investments in 114 ventures through June 30, 2013 (including companies that were originally part of the CIP but have since "graduated" into the EIF). The cumulative costs of these investments are \$51.9 million since fiscal year 1994. At the end of fiscal year 2013, 25 ventures have "gone public" or been acquired by a publicly traded firm or a larger privately held firm. MVF has exited through the sale of closely held securities and has received approximately \$67.8 million in returns. It is difficult to estimate the "Fair Market Value" (FMV) for the balance of

DBED's holdings because these firms are still privately held. Taking a conservative approach in determining FMV, using the FAS 157 guidelines, the FMV of the EIF portfolio is approximately \$12.3 million as of June 30, 2013.

Challenge Investment Program

The CIP has made investments in 177 companies since fiscal year 1994, the Program's first "official" year of operation. Total investment through June 30, 2013 has been approximately \$11.90 million. Of those 177 investments, over 100 are still in business or have had some type of successful exit from the program. Given the high risks associated with "start-up" financing, the Program's success rate is considered extremely high. Approximately 50 firms have gone on to receive investment from the EIF, transition into the EIF via conversion into stock, trade publicly, or be acquired.

Enterprise VCLP Fund

DBED received a total of \$144,092 in distributions and interest from the partnerships in FY 2013. In FY 2012, \$84,733 was returned, and in FY 2011, \$89,411 was returned.

Performance for Fiscal Year 2013

During FY 2013, thirty (30) transactions were approved with five (5) InvestMaryland VCLP transactions totaling \$31,000,000, three (3) InvestMaryland Challenge Grants totaling \$300,000 and twenty-two (22) EIF investments totaling \$8,658,789.

During FY 2013, EIF closed twenty-two (22) transactions of which fifteen (15) were InvestMaryland investments totaling \$5,918,789, four (4) SSBCI investments totaling \$1,950,000, two (2) Enterprise investments totaling \$640,000 and one (1) \$150,000 conversion of a CIP investment into an EIF investment.

During FY 2013, EIF received \$3,182,844 in distributions.

Lastly, during fiscal year 2013 MVF substantially increased its staff capacity with the addition of four investment professionals including a Managing Director of Equity Funds, two Principals, and an Investment Analyst.

Projected Performance for Fiscal Year 2014

As a result of the influx of capital from the InvestMaryland Program and the SSBCI Program, FY 2014 will see catalytic changes in MVF operations. The Governor's InvestMaryland initiative resulted in a total of \$84 million being infused into the Enterprise Fund over a three year period. MVF is charged with executing on investment of \$56 million of the InvestMaryland dollars into other venture funds that in turn will invest that amount in Maryland. In addition, MVF will provide post-investment oversight of the venture fund investments. It is anticipated that all of the \$56 million will be committed by the end of the 2013 calendar year. Investment returns will occur over the succeeding years and are required to be paid over to the State's general fund.

MVF is also responsible for directly investing into Maryland companies \$21.7 million of the InvestMaryland funds (which will be received over a three year period). MVF's pool of funds for direct investment was further augmented by monies received from the U.S. Treasury's State Small Business Credit Initiative ("SSBCI") and by an influx of proceeds from the sale of MVF portfolio companies. As a result, the total available for direct investments is approximately \$40 million. We expect to deploy those funds (investments plus encumbered reserves for follow-ons) over the next three fiscal years. Investment returns on InvestMaryland direct investments will occur over the succeeding years and will be available to be re-invested by MVF into new investments.

The MVF's portfolio maintenance requirements have continued to grow as the number of portfolio of companies has steadily increased. Additionally, historically the program has considered over 250 companies annually for CIP or EIF funding.

With respect to current VCLPs in the Fund's portfolio, it is anticipated that the VCLP investments made before 2000 are close to the end of their expected lives and, accordingly, a declining number of distributions of stock/cash to the limited partners, including DBED, are expected.

Approved Report

7/1/2012 Through 6/30/2013

<i>Approved Retained Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>Trainees Pro / Actual</i>	<i>New Jobs</i>	<i>Jobs</i>
<i>MVF Enterprise</i>										
7/25/2012	Theranostics Health, Inc.	12400201	\$250,000.00	0.0%	\$0.00	Montgomery	\$1,500,000.00	N/A	18	10
12/20/2012	3Clogic, Inc.	4500601	\$390,000.00	0.0%	\$0.00	Montgomery	\$1,540,000.00	N/A	5	10
Totals:		2 Loans	\$640,000.00		\$0.00		\$3,040,000.00	0	23	20
<i>MVF COV Challenge to Enterprise</i>										
10/1/2012	20/20 Gene Systems, Inc.	4480301	\$150,000.00	0.0%	\$0.00	Montgomery	\$150,000.00	N/A	0	13
Totals:		1 Loan	\$150,000.00		\$0.00		\$150,000.00	0	0	13
<i>MVF InvestMD II Enterprise</i>										
8/22/2012	Pathsensors, Inc.	11480301	\$400,000.00	0.0%	\$0.00	Montgomery	\$1,755,000.00	N/A	13	17
9/17/2012	BrainScope Company, Inc.	12990201	\$750,000.00	0.0%	\$0.00	Montgomery	\$3,500,000.00	N/A	25	22
9/17/2012	Maxtena, Inc.	14260101	\$1,120,000.00	0.0%	\$0.00	Montgomery	\$910,000.00	N/A	47	10
9/28/2012	Bambeco LLC	12320301	\$400,000.00	0.0%	\$0.00	Baltimore City	\$400,000.00	N/A	33	16
9/28/2012	Zenoss, Inc.	5600501	\$148,789.00	0.0%	\$0.00	Anne Arundel	\$20,000,000.00	N/A	195	110
11/19/2012	Bambeco LLC	12320401	\$200,000.00	0.0%	\$0.00	Baltimore City	\$200,000.00	N/A	0	49
11/20/2012	Plasmonix, Inc.	12390401	\$100,000.00	0.0%	\$0.00	Baltimore City	\$298,264.00	N/A	0	13
3/1/2013	CES Acquisition Corp.	14530101	\$800,000.00	0.0%	\$0.00	Baltimore County	\$3,700,000.00	N/A	21	74
3/18/2013	Maxtena, Inc.	14260201	\$250,000.00	0.0%	\$0.00	Montgomery	\$250,000.00	N/A	0	0
4/8/2013	SocialToaster, Inc.	14680101	\$600,000.00	0.0%	\$0.00	Baltimore City	\$1,000,000.00	N/A	7	18
6/3/2013	Bambeco LLC	12320601	\$100,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	N/A	22	25
6/3/2013	Maxtena, Inc.	14260301	\$200,000.00	0.0%	\$0.00	Montgomery	\$200,000.00	N/A	10	11
6/27/2013	Bambeco LLC	12320701	\$200,000.00	0.0%	\$0.00	Baltimore City	\$200,000.00	N/A	22	25
6/28/2013	ReelGenie, LLC	14980101	\$150,000.00	0.0%	\$0.00	Montgomery	\$1,185,000.00	N/A	8	4

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

<i>Retained</i>	<i>Approved</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan</i>	<i>Guarantor</i>	<i>Loan</i>	<i>County</i>	<i>Total Project</i>	<i>Trainees</i>	<i>New</i>
<i>Date</i>			<i>Amount</i>	<i>Percentage</i>	<i>Guarantee</i>		<i>Costs</i>	<i>Pro / Actual</i>	<i>Jobs</i>	<i>Jobs</i>
6/28/2013	Weather Analytics, LLC	14970101	\$500,000.00	0.0%	\$0.00	(None)	\$3,000,000.00	N/A	37	0
	Totals:	15 Loans	\$5,918,789.00		\$0.00		\$36,698,264.00	0	440	394
<i>MVF Enterprise/SSBCI</i>										
9/17/2012	BrainScope Company, Inc.	12990101	\$250,000.00	0.0%	\$0.00	Montgomery	\$11,563,636.78	N/A	3	40.25
2/1/2013	Adlyfe, Inc.	14380101	\$600,000.00	0.0%	\$0.00	Montgomery	\$6,700,000.00	N/A	2.5	0.25
2/15/2013	Cytomedix, Inc.	14450101	\$1,000,000.00	0.0%	\$0.00	Montgomery	\$9,803,000.00	N/A	13	51
4/1/2013	Bambeco LLC	12320501	\$100,000.00	0.0%	\$0.00	Baltimore City	\$2,100,000.00	N/A	24	16
	Totals:	4 Loans	\$1,950,000.00		\$0.00		\$30,166,636.78	0	0	42.5
<i>MVF InvestMD I VCLP</i>										
12/14/2012	Grotech Ventures II, L.P.	14310101	\$12,000,000.00	0.0%	\$0.00	Baltimore County	\$207,015,306.00	N/A	0	0
12/21/2012	New Atlantic Venture Fund IV,	14330101	\$8,000,000.00	0.0%	\$0.00	(None)	\$80,000,000.00	N/A	0	0
1/2/2013	Kinetic Ventures IX, L.P.	14350101	\$5,000,000.00	0.0%	\$0.00	(None)	\$5,000,000.00	N/A	0	0
6/26/2013	Core Equity Partners III, L.P.	15000101	\$3,000,000.00	0.0%	\$0.00	(None)	\$3,000,000.00	N/A	0	0
6/26/2013	New Markets Education Partners	14990101	\$3,000,000.00	0.0%	\$0.00	Baltimore County	\$3,000,000.00	N/A	0	0
	Totals:	5 Loans	\$31,000,000.00		\$0.00		\$298,015,306.00	0	0	0
<i>MVF Challenge/InvestMD</i>										
4/30/2013	Red Owl Analytics LLC	14720101	\$100,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	N/A	20	16
5/6/2013	I-Lighting, LLC	14730101	\$100,000.00	0.0%	\$0.00	Cecil	\$100,000.00	N/A	10	3
5/17/2013	GrayBug, LLC	13710201	\$100,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	N/A	2	4
	Totals:	3 Loans	\$300,000.00		\$0.00		\$300,000.00	0	32	23
	Grand Totals:	30 Loans	\$39,958,789.00		\$0.00		\$368,370,206.78	0	0	537.5

Settled Report

7/1/2012 Through 6/30/2013

<i>Settled Retained Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>Trainees Pro / Actual</i>	<i>New Jobs</i>	<i>Jobs</i>
<i>MVF Enterprise</i>										
7/13/2012	InstantLabs Medical Diagnostic	13690101	\$150,000.00	0.0%	\$0.00	Baltimore City	\$875,000.00	N/A	5	7
8/9/2012	JobOn Inc.	13870101	\$150,000.00	0.0%	\$0.00	Anne Arundel	\$300,000.00	N/A	14	5
9/24/2012	Theranostics Health, Inc.	12400201	\$250,000.00	0.0%	\$0.00	Montgomery	\$1,500,000.00	N/A	18	10
11/16/2012	3Clogic, Inc.	4500502	\$100,000.00	0.0%	\$0.00	Montgomery	\$0.00	N/A	0	0
1/6/2013	3Clogic, Inc.	4500601	\$390,000.00	0.0%	\$0.00	Montgomery	\$1,540,000.00	N/A	5	10
Totals:	5 Loans		\$1,040,000.00		\$0.00		\$4,215,000.00	0	42	32
<i>MVF COV Challenge to Enterprise</i>										
9/25/2012	20/20 Gene Systems, Inc.	4480301	\$150,000.00	0.0%	\$0.00	Montgomery	\$150,000.00	N/A	0	13
Totals:	1 Loan		\$150,000.00		\$0.00		\$150,000.00	0	0	13
<i>MVF InvestMD II Enterprise</i>										
9/11/2012	Pathsensors, Inc.	11480301	\$400,000.00	0.0%	\$0.00	Montgomery	\$1,755,000.00	N/A	13	17
10/8/2012	BrainScope Company, Inc.	12990201	\$750,000.00	0.0%	\$0.00	Montgomery	\$3,500,000.00	N/A	25	22
10/10/2012	Bambeco LLC	12320301	\$400,000.00	0.0%	\$0.00	Baltimore City	\$400,000.00	N/A	33	16
10/17/2012	Maxtena, Inc.	14260101	\$1,120,000.00	0.0%	\$0.00	Montgomery	\$910,000.00	N/A	47	10
11/9/2012	Zenoss, Inc.	5600501	\$148,789.00	0.0%	\$0.00	Anne Arundel	\$20,000,000.00	N/A	195	110
12/3/2012	Bambeco LLC	12320401	\$200,000.00	0.0%	\$0.00	Baltimore City	\$200,000.00	N/A	0	49
12/3/2012	Plasmonix, Inc.	12390401	\$100,000.00	0.0%	\$0.00	Baltimore City	\$298,264.00	N/A	0	13
4/4/2013	Maxtena, Inc.	14260201	\$250,000.00	0.0%	\$0.00	Montgomery	\$250,000.00	N/A	0	0
4/10/2013	CES Acquisition Corp.	14530101	\$800,000.00	0.0%	\$0.00	Baltimore County	\$3,700,000.00	N/A	21	74
6/20/2013	Bambeco LLC	12320601	\$100,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	N/A	22	25
6/20/2013	Maxtena, Inc.	14260301	\$200,000.00	0.0%	\$0.00	Montgomery	\$200,000.00	N/A	10	11

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

<i>Settled Retained Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan</i>	<i>Guarantor</i>	<i>Loan</i>	<i>County</i>	<i>Total Project</i>	<i>Trainees</i>	<i>New</i>	
			<i>Amount</i>	<i>Percentage</i>	<i>Guarantee</i>		<i>Costs</i>	<i>Pro / Actual</i>	<i>Jobs</i>	<i>Jobs</i>
Totals:	11 Loans		\$4,468,789.00		\$0.00		\$31,313,264.00	0	366	347
<i>MVF Enterprise/SSBCI</i>										
8/17/2012	Akonni Biosystems, Inc.	5820801	\$500,000.90	0.0%	\$0.00	Frederick	\$2,986,608.75	N/A	2	38
11/9/2012	Zero Chroma LLC	13950101	\$499,086.00	0.0%	\$0.00	Carroll	\$1,142,444.00	N/A	20	4
2/19/2013	Cytomedix, Inc.	14450101	\$1,000,000.00	0.0%	\$0.00	Montgomery	\$9,803,000.00	N/A	13	51
2/20/2013	Adlyfe, Inc.	14380101	\$600,000.00	0.0%	\$0.00	Montgomery	\$6,700,000.00	N/A	2.5	0.25
4/12/2013	Bambeco LLC	12320501	\$100,000.00	0.0%	\$0.00	Baltimore City	\$2,100,000.00	N/A	24	16
Totals:	5 Loans		\$2,699,086.90		\$0.00		\$22,732,052.75	0	0	61.5 109.25
<i>MVF InvestMD I VCLP</i>										
12/21/2012	Grotech Ventures II, L.P.	14310101	\$12,000,000.00	0.0%	\$0.00	Baltimore County	\$207,015,306.00	N/A	0	0
12/21/2012	New Atlantic Venture Fund IV,	14330101	\$8,000,000.00	0.0%	\$0.00	(None)	\$80,000,000.00	N/A	0	0
12/28/2012	Kinetic Ventures IX, L.P.	14350101	\$5,000,000.00	0.0%	\$0.00	(None)	\$5,000,000.00	N/A	0	0
6/28/2013	Core Equity Partners III, L.P.	15000101	\$3,000,000.00	0.0%	\$0.00	(None)	\$3,000,000.00	N/A	0	0
6/28/2013	New Markets Education Partners	14990101	\$3,000,000.00	0.0%	\$0.00	Baltimore County	\$3,000,000.00	N/A	0	0
Totals:	5 Loans		\$31,000,000.00		\$0.00		\$298,015,306.00	0	0	0
<i>MVF Challenge/InvestMD</i>										
4/30/2013	GrayBug, LLC	13710201	\$100,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	N/A	2	4
5/21/2013	I-Lighting, LLC	14730101	\$100,000.00	0.0%	\$0.00	Cecil	\$100,000.00	N/A	10	3
5/21/2013	Red Owl Analytics LLC	14720101	\$100,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	N/A	20	16
Totals:	3 Loans		\$300,000.00		\$0.00		\$300,000.00	0	32	23
Grand Totals:	30 Loans		\$39,657,875.90		\$0.00		\$356,725,622.75	0	0	501.5 524.25